Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 27, 1945

OFFICERS

Geo. A. Hormel	Chairman of the Board
Jay C. Hormel	President
H. H. Corey	Vice President & General Manager
R. H. Daigneau	Vice President
Park Dougherty	Vice President
R. F. Gray	Vice President
J. L. Olson	Vice President
T. H. Hocker	Vice President
C. D. Bigelow	Secretary
M. F. Dugan	Treasurer
R. D. Gower	Comptroller

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DIRECTORS

S. D. Catherwood

H. H. Corey

R. H. Daigneau

Park Dougherty

M. F. Dugan

R. D. Gower

John P. Higgins

T. H. Hocker

Geo. A. Hormel

Jay C. Hormel

O. W. O'Berg

*L. E. Wakefield

* Deceased July 25, 1945—after serving as a director of Geo. A. Hormel & Co. since 1922.

Austin, Minnesota
November 30, 1945

To the Stockholders of
Geo. A. Hormel & Company

This report including the earnings statement and balance sheet of your company for the year ended October 27, 1945, is submitted herewith.

Capital stock and surplus totaled $15,346,013. The company has no funded debt. It had no borrowed money nor other indebtedness at the year-end beyond current and customary bills. Its net working capital amounts to $10,086,891. The ratio of current assets to current liabilities is 3:1.

The company's sales have dropped from last year's war-time, all time peak. The weight of product sold was 541,910,599 pounds which is 16.1% less than last year. The total sales amount was $116,983,646 which is 15.7% less than last year. Net profit amounted to $1,273,639 which is approximately 1.1% of net sales and which amounts to two-tenths of a cent per pound of live weight of animals slaughtered.

Under the Barkley-Bates Amendment, a reasonable profit to the packer on each species of livestock is allowed. Under the system of subsidy and price control this is taken to mean an additional subsidy payment to the company. As of this date no announcement of an intention to pay it or of its amount has been made by the government. Therefore, no amount for this final subsidy payment of the past year has been taken into account in this financial statement except that it was estimated in making the year-end joint earnings payments to employees. The practical effect of error here is reduced by the fact that any such final government payment will be offset, in large degree, by the amount paid the government in taxes.

The outlook for the coming year is uncertain.

The predicted rush of cattle to market from the ranges has not yet materialized. Government reports indicate a decline in the number of lambs produced. Although the company has joined with other agencies in promoting careful use of available feeds and believes that individual farmers are going to extreme lengths to make every pound of feed count, the fact remains that the corn crop is not favorable to full production of hogs for the coming year.

One of the big hazards we are facing this winter lies in overloaded railroad facilities and an acute shortage of refrigerator car equipment.

Materials still are not available in sufficient quantities to permit us to undertake any major part of our construction program, or to secure new equipment needed for certain planned activities. Some of

our post-war projects still are being prevented or delayed by war-time restrictions and regulations which have not yet been lifted. The government is still buying large quantities of meat for the army and navy and its meat commitments for relief are substantial. "Set-asides" currently are taking substantial portions of the lower grades of beef. Altogether this government demand diverts the materials which might otherwise be processed into meat specialties for the domestic trade and leaves us in the position of not being able to take care of our customers as well as we had expected to do by this time.

Conditions in our favor are not so tangible nor so easy to recite.

The Interstate Commerce Commission has established new freight rates on packinghouse products to the West coast. On the average there will be a saving of a little more than $1.00 per hundred weight as compared with the old rates. These new rates come as the result of a case initiated by this company in 1943 after previous attempts to get an adjustment had failed. This decision of the Interstate Commerce Commission has the effect of moving the Corn Belt closer to the Pacific coast and makes the production of the Corn Belt more available to customers in the far west. A recent action of the OPA limiting shipments to the West coast to 75% of the quantities in the base period nullifies this advantage for the present, but over a period of years it will help to create a better market for livestock produced by farmers in the Corn Belt, and as their advantage is realized our business opportunity will grow in proportion.

The company's source of beef has been increased by our purchase of the Ben H. Rosenthal plant at Dallas, Texas, which is devoted chiefly to the slaughter of beef. In this plant we carry on sausage making, curing, and smoking operations to assist us in serving our Texas trade. The present employment of the Dallas plant is 75.

Our new packing year has started off with good volume and it may not be unreasonable to hope that some of our other difficulties will have disappeared by the time the poor corn crop is reflected in slaughter volume. Our work force has been held relatively intact. We have only 355 persons in the Austin plant who have joined the company during the past year, of whom 125 are war veterans not previously employed by us. This means that most of our people are experienced. At the same time, a substantial number of our men and women are returning from the armed services, and more than half of the total number are returning to their old jobs and thus to that part of our work which they know how to do.

As of the end of the fiscal year, 1965 military leaves had been granted by our company. 534 are known to have received their discharges. Of these, 67 were attracted elsewhere, and 52 who returned to work did not stay. 285 or 53% are now working for the company, and 130 are still within the 90-day period and thus still may return to us.

We already have begun to feel the benefits from the return of service people, and as they return in greater numbers, we expect material strengthening of our organization in all of its grades and departments.

Our system of production schedules and incentive payments has seemingly worked very well as a means toward accomplishing the full utilization of our facilities and at the same time providing higher rates of pay for our people. At the moment, we are undertaking to extend these same methods to our branches which have not heretofore had the benefit of them. A system for the development of business improvement projects has been established as a means of permitting any individual to participate in and to be paid for any part he may play in the constructive problems of management. Training courses have been established to assist individuals and working groups in making their own contributions to improvements in method and in production. Our general purpose is to attain a broad participation among all our employees in doing those things which will produce a higher average annual earning for them.

During the past year, the average of annual wage and salary payments to all our employees amounted to $2,543 each. This compares with $2,686 per person last year. This decrease in the individual earnings of our employees is accounted for by the fact that our volume is nearly one-sixth less than a year ago. This left our employees with less earning opportunity because there was less work to do.

To most of our people this annual amount was paid in three ways. First—each individual on the so-called annual wage basis has a regular weekly rate. Second—about five out of six are in position to make production bonuses, some of which are paid from week to week but some of which are paid at the end of the production year. Third—those eligible to participate in joint earnings receive a year-end check for that part of the joint earnings amount which has not been paid to them in their weekly rate and their production bonuses.

Toward the end of the fiscal year, there was an increase of $7 on the weekly rates of those working under the annual wage. Under the joint earnings plan this change in the weekly rates does not have the effect of changing the total annual earnings of the group as a whole. For production workers, it does have the effect of increasing by $7 the amount of pay received during vacation or sick leave weeks. At the time the adjustment was made, production schedules were increased 10%. Hence, those in a position to earn the highest production bonuses received the lowest addition to their weekly check amounts. Those with the smallest production opportunity received the largest addition to their weekly check amounts. The 1/6 of the employees who have no production or overtime opportunity found their weekly checks increased by the entire $7.

A part of this arrangement was that the $7 provision would continue until there is a change in the basic wage rates throughout the indus-

try, at which time the $7 weekly payment will be eliminated with respect to those who have an opportunity for a production bonus, and instead new basic rates in effect in each area will be assigned each individual on the basis of whatever new industry standards are established. Negotiations recently completed by six packers and UPWA-CIO, indicate that this new wage level subject to government approval and compensating price relief will be based on a labor rate of 87½ cents. This would be a new net rate, eliminating payments for the so-called "fringe issues" except the clothing allowance of 50 cents a week.

For those employees outside of Austin who are still working on an overtime basis, the $7 bonus was not added. With the beginning of the new fiscal year, the company has extended the privilege of the annual wage and production gains to one of our outside plants and will further extend it as rapidly as possible.

This year's contribution to the Hormel Employees' Profit-Sharing Trust was $55,632. There were 306 who received the largest contribution which brings the accumulated interest to $3,700 for the 145 employees who have been here 27 years or more. Last year 13 employees retired and 26 died, including 15 in the armed services, who had an interest in the Trust.

As we contemplate this year of the war's end, we are grateful for the creditable manner in which our people have done their part in war production, subscribing to war bonds and contributing to war work.

We are proud of the record Hormel men and women have made in the armed services. We are looking forward with pleasure to the early return of those who still are away. We remember with honor and sorrow the 67 who have died or still are listed as missing in action

JAY C. HORMEL
President

A booklet has been prepared explaining the Hormel Employees' Profit-Sharing Trust to participants in it and is recommended to stockholders who would like a more complete explanation than has been generally circulated. The booklet will be sent promptly upon request addressed to the Secretary of the company.

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the consolidated balance sheet of Geo. A. Hormel & Company and its subsidiary as of October 27, 1945, and the consolidated statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. It was found impracticable to confirm by direct communication the amounts receivable from United States Government agencies as to which we satisfied ourselves by other procedures.

In our opinion, the accompanying balance sheet and related summaries of profit and loss and surplus present fairly the consolidated position of Geo. A. Hormel & Company and its subsidiary at October 27, 1945, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 30, 1945

CONSOLIDATED

Geo. A. Hormel & Company —

October

ASSETS

			CURRENT ASSETS	$15,072,268
Cash in banks and on hand			$6,287,380	
United States Government securities—at cost			811,959	
Trade accounts receivable, less reserve of $100,000 (including United States Government accounts of $1,007,045)			3,452,489	
Inventories:				
Products, livestock, packages and materials—at the lower of cost or market (cost of products is based on market at the date of production)			4,520,440	
			INVESTMENTS AND OTHER ASSETS	103,021
Properties not used in operations—at cost less reserves for depreciation of $24,078			$ 31,211	
Sundry securities, notes and accounts, less reserve of $27,500			69,891	
Accounts and notes receivable from employees			1,919	
			PROPERTY, PLANT AND EQUIPMENT	4,927,526
	COST	RESERVES	NET BALANCE	
Land	$ 100,774		$ 100,774	
Buildings	5,490,929	$1,916,212	3,574,717	
Machinery and equipment	3,783,802	2,859,729	924,073	
Leasehold improvements	267,240	173,161	94,079	
	$9,642,745	$4,949,102	$4,693,643	
Movable equipment—inventory basis			233,883	
			DEFERRED CHARGES	328,575
				$20,431,390

BALANCE SHEET

Austin, Minnesota, and Subsidiary

27, 1945

LIABILITIES

CURRENT LIABILITIES			$ 4,985,377
Accounts payable		$ 957,357	
Salaries, wages and profit sharing payments		1,804,670	
Income taxes withheld from employees and pay roll taxes		255,215	
Accrued taxes and other expenses		335,161	
Dividends payable November 15th		255,772	
Federal taxes on income of the year ended October 27, 1945, and prior years—estimated—Note A		1,377,202	
RESERVE—for contingencies			100,000
CAPITAL STOCK AND SURPLUS			15,346,013
Interest of minority stockholders in capital stock and surplus of subsidiary		$ 18,213	
Preferred stock, cumulative, par value $100:			
Authorized—48,935 shares			
Issued—Series A, 6% (callable at $105)	14,554 shares	$1,455,400	
In treasury	100 shares	10,000	
Outstanding	14,454 shares	$1,445,400	
Common stock, no par value:			
Authorized—500,000 shares			
Issued	493,944 shares	$6,116,586	
In treasury	28,944 shares	358,414	
Outstanding	465,000 shares	$5,758,172	
Surplus (consists of earned surplus of predecessor corporation, plus undistributed earned surplus of present corporation since October 29, 1928, date of incorporation under Delaware law):			
Unappropriated surplus		$6,800,790	
Surplus credit resulting from reduction in tax provision—Note A		1,323,438	
		$8,124,228	
			$20,431,390

See accompanying notes to financial statements.

SUMMARY OF CONSOLIDATED PROFIT AND LOSS STATEMENT

Geo. A. Hormel & Company and Subsidiary

Fiscal Year Ended October 27, 1945

SALES (less returns and allowances)		$116,983,646	
Less freight and express		2,770,059	
NET SALES			$114,213,587
COSTS, EXPENSES AND TAXES (Itemized below)			112,939,948
MATERIAL COSTS AND EXPENSES		$ 98,619,281	
Cost of products sold, selling, administrative and general expenses, exclusive of items shown separately	$98,078,530		
Provision for depreciation and amortization	507,488		
Sundry charges less sundry income and credits	33,263		
TOTAL WAGE COSTS		12,924,792	
Wages and salaries including joint earnings	$12,628,357		
Contribution to employees' profit sharing trust	55,632		
Unemployment and Federal Old Age Benefit contributions	240,803		
TOTAL TAXES		1,395,875	
Property and miscellaneous taxes	$ 328,210		
Taxes on income—estimated—Note A:			
Provision for the year:			
Federal normal income tax and surtax	$ 826,300		
Federal excess profits tax	211,700		
Additional provision for state tax on income of prior years	29,665		
	$ 1,067,665		
NET PROFIT			$ 1,273,639

See accompanying notes to financial statements.

SUMMARY OF SURPLUS

Geo. A. Hormel & Company and Subsidiary

Fiscal Year Ended October 27, 1945

SURPLUS—October 29, 1944	$6,543,875	
Add net profit for the year	1,273,639	$7,817,514
Deduct cash dividends:		
On preferred stock—$6 per share	$ 86,724	
On common stock—$2 per share	930,000	1,016,724
Unappropriated surplus		$6,800,790
Surplus credit resulting from reduction in tax provision—Note A		1,323,438
SURPLUS—OCTOBER 27, 1945		$8,124,228

NOTES TO FINANCIAL STATEMENTS

NOTE A— The Company, in filing its federal income and excess profits tax returns for the fiscal years 1942, 1943 and 1944, claimed the benefits of certain relief provisions of the Internal Revenue Code and intends to make a similar claim for the fiscal year 1945. An agreement has been reached with the local office of the Bureau of Internal Revenue for the fiscal years 1942 and 1943, subject to review by the Bureau in Washington. The Company expects that such agreement will be approved for the aforementioned years as well as subsequent years and has, therefore, transferred to surplus account an amount of $1,323,438 representing the amount by which the tax provisions for the year 1942 and susequent years will be found excessive under the terms of the agreement. Pending review, this amount has been segregated in the surplus account of the Company.

NOTE B— Profits of the Company include those from transactions which are subject to the provisions of the Renegotiation Act. Transactions for the three preceding years to which the Act applied have been reviewed by the appropriate Price Adjustment Board and a net adjustment of $20,865 for the fiscal year 1944, has been provided for in the financial statements for the current year. Proceedings have not been started for the fiscal year 1945, but the Company believes that any possible net adjustment of profits and applicable taxes on income will not materially affect the financial statements and no provision has been made for refunds.